



UNITED STATES
POSTAL SERVICE

**PRC Version -
COST AND REVENUE ANALYSIS**

FISCAL YEAR 2006

DRAFT

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006 - PRC Version

Classes and Sub-Classes of Mail (note 1)	(in millions)				(per piece)			
	Revenue	Attributable Cost	Volume Variable Cost	Product Specific Cost	Revenue \$	Attributable Cost \$	Contribution \$	Cost Coverage
	(note 1)	(note 2)	(note 2)	(note 2)		(note 2)	(note 2)	(note 2)
	A	B	C	F	D	E	(D-E)	(D/E)
First-Class Mail:								
Single-Piece Letters.....	\$19,744.7	\$12,548.8	\$12,538.6	\$10,220	\$0.469	\$0.298	\$0.171	157.34%
Presort Letters.....	15,837.9	5,539.0	5,526.8	12,116	0.318	0.111	0.207	285.94%
Total Letters.....	35,582.6	18,087.8	18,065.4	22,336	0.387	0.197	0.190	196.72%
Single-Piece Cards.....	550.4	504.7	504.1	559	0.239	0.219	0.020	109.07%
Presort Cards.....	650.2	247.9	247.1	823	0.192	0.073	0.119	262.30%
Total Cards.....	1,200.6	752.6	751.2	1,382	0.211	0.132	0.079	159.54%
Fees (note 2).....	247.3							
Total First-Class.....	37,030.5	18,840.3	18,816.6	23,718	0.379	0.193	0.186	196.55%
Priority Mail.....	5,042.0	4,029.9	4,025.1	4,875	5.455	4.360	1.095	125.11%
Express Mail.....	918.1	582.4	573.4	9,000	16.410	10.409	6.001	157.65%
Mailgram.....	0.3	2.1	2.1	-	0.425	2.748	(2.323)	15.46%
Periodicals:								
In County.....	70.9	82.7	82.7	5	0.094	0.109	(0.016)	85.75%
Outside County (note 2).....	2,124.8	2,487.6	2,487.5	52	0.257	0.301	(0.044)	85.42%
Fees (note 2).....	19.4			-				
Total Periodicals.....	2,215.2	2,570.3	2,570.2	57	0.246	0.285	(0.039)	86.18%
Standard Mail:								
Enhanced Carrier Route (note 2).....	5,967.7	3,072.8	3,066.5	6,268	0.167	0.086	0.081	194.21%
Regular (note 2).....	13,804.6	9,209.4	9,197.6	11,747	0.207	0.138	0.069	149.90%
Fees (note 2).....	104.5			-				
Total Standard Mail.....	19,876.8	12,282.2	12,264.2	18,015	0.194	0.120	0.074	161.83%
Package Services:								
Parcel Post.....	1,209.2	1,133.5	1,133.4	111	3.334	3.125	0.209	106.68%
Bound Printed Matter.....	643.0	556.8	556.8	-	1.039	0.900	0.139	115.50%
Media Mail (note 2).....	403.8	451.6	451.6	-	2.091	2.338	(0.248)	89.41%
Fees (note 2).....	2.5		-	-				
Total Package Services.....	2,258.6	2,142.1	2,141.7	111	1.923	1.824	0.099	105.44%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006 - PRC Version

Classes and Sub-Classes of Mail (note 1)	(In millions)				(per piece)			
	Revenue (note 1)	Attributable Cost (note 2)	Volume Variable Cost (note 2)	Product Specific Cost (note 2)	Revenue \$ D	Attributable Cost \$ (note 2)	Contribution \$ (D-E)	Cost Coverage (note 2) (D/E)
	A	B	C	C		E	(D-E)	(D/E)
Free Mail - blind, handicapped & servicemen.....	-	50.9	50.9	-	-	0.684	N/A	0.00%
International Mail (note 2).....	1,820.4	1,501.9	1,457.2	44,700	2,294	1,893	0.401	121.20%
Total Mail.....	69,161.8	42,607.2	41,901.5	\$100,477	0.324	0.200	0.125	162.32%
Special Services:								
Registry	55.4	99.2	99.2	6	11,448	20,489	(9,040)	55.88%
Certified	631.6	471.4	471.1	350	2,377	1,774	0.603	133.98%
Insurance.....	130.9	116.9	116.8	67	2,560	2,286	0.274	112.00%
COD	9.8	12.7	12.7	2	6,447	8,341	(1,895)	77.29%
Money Orders (note 2).....	228.1	148.5	144.9	3,656	1,298	0.846	0.453	153.56%
Stamped Cards (note 4).....	4.2	2.0	2.0					
Stamped Envelopes.....	21.0	12.3	12.3	2				
Special Handling.....	9.3	0.5	0.5					
Post Office Box.....	813.7	571.3	570.6	765				
Other (note 2).....	609.0	396.3	394.9	1,342				
Total Special Services.....	2,513.0	1,831.2	1,825.0	6,190				
Miscellaneous items (note 2).....	877.1							
Total Mail and Services.....	72,551.9	44,438.4	43,726.5	106,667				
Appropriations: Revenue Forgone.....	99.0							
Total Operating Revenue.....	72,650.9							
Investment Income.....	166.6							
Total (note 3).....	72,817.5	\$43,839.0	\$43,732.3					
All Other Costs.....		30,437.0	31,149.0					
Total Costs (note 3).....		\$74,875.4	\$74,875.4					

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006

VOLUME STATISTICS

Classes and Sub-Classes of Mail (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)	Cubic Feet (thousands)	Weight per Cubic Foot (pounds)
First-Class Mail:					
Single-Piece Letters.....	42,064,524	2,018,228	0.8	113,091	17.8
Presort Letters.....	49,862,002	2,303,999	0.7	128,195	18.0
Total Letters.....	91,926,525	4,322,227	0.8	241,286	17.9
Single-Piece Cards.....	2,301,043	15,133	0.1	1,014	14.9
Presort Cards.....	3,386,571	38,479	0.2	2,577	14.9
Total Cards.....	5,687,614	53,612	0.2	3,591	14.9
Total First Class.....	97,614,139	4,375,840	0.7	244,877	17.9
Priority Mail.....	924,207	1,809,451	31.3	400,400	4.5
Express Mail.....	55,950	53,812	15.4	8,536	6.3
Mailgram.....	774	0	0.0	0	0.0
Periodicals:					
In County.....	757,928	255,937	5.4	10,214	25.1
Outside County (note 2).....	8,264,634	3,784,753	7.3	151,040	25.1
Total Periodicals.....	9,022,562	4,040,690	7.2	161,254	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	35,651,264	5,716,067	2.6	224,801	25.4
Regular (note 2).....	66,808,295	6,055,107	1.5	261,653	23.1
Total Standard Mail.....	102,459,559	11,771,173	1.8	486,454	24.2
Package Services:					
Parcel Post.....	362,727	1,685,944	74.4	334,305	5.0
Bound Printed Matter.....	618,685	1,382,151	35.7	145,635	9.5
Media Mail (note 2).....	183,136	391,739	32.5	50,456	7.8
Total Package Services.....	1,174,548	3,459,834	47.1	530,396	6.5

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006

VOLUME STATISTICS

<u>Classes and Sub-Classes of Mail</u> <u>(note 1)</u>	<u>Pieces</u> <u>(thousands)</u>	<u>Weight in</u> <u>Pounds</u> <u>(thousands)</u>	<u>Weight per</u> <u>Piece</u> <u>(ounces)</u>	<u>Cubic Feet</u> <u>(thousands)</u>	<u>Weight per</u> <u>Cubic Foot</u> <u>(pounds)</u>
US Postal Service.....	1,015,940	128,134	2.0	19,371	6.6
Free Mail - blind, handicapped & servicemen.....	77,871	35,588	7.3	3,214	11.1
International Mail (note 2).....	793,499	257,245	5.2	40,476	6.4
Total Mail.....	213,139,048	25,931,768	1.9	1,894,978	13.7
Special Services:					
Registry	4,843	N/A	N/A	N/A	N/A
Certified	265,728	N/A	N/A	N/A	N/A
Insurance.....	51,137	N/A	N/A	N/A	N/A
COD	1,517	N/A	N/A	N/A	N/A
Money Orders (note 2).....	175,840	N/A	N/A	N/A	N/A
Stamped Cards.....	0	N/A	N/A	N/A	N/A
Stamped Envelopes.....	0	N/A	N/A	N/A	N/A
Special Handling.....	1,491	N/A	N/A	N/A	N/A
Post Office Box.....	0	N/A	N/A	N/A	N/A
Other (note 2).....	1,018,270	N/A	N/A	N/A	N/A
Total Special Services.....	1,518,625	N/A	N/A	N/A	N/A

NOTES TO COST AND REVENUE ANALYSIS
(PRC Version)
Fiscal Year 2006

1. Cost and Revenue Analysis

The U.S. Postal Service (Postal Service) annually prepares the Cost and Revenue Analysis (CRA) covering the period from October 1 through September 30. The CRA aids in determining that the statutory requirements under Title 39 U.S. Code are met, that "each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service...." The CRA presents estimates of the total and per unit revenue by category of mail or service. It also presents each category's estimated attributable and unit costs. These estimates are considered as one element of the postal rate making process.

The postal system of accounts is the basis for CRA data; however, the postal system of accounts generally does not accumulate financial data by class and subclass of mail. Apportionment factors, derived from various postal operational and statistical information sources, are required for development of the data for CRA purposes. Some of these sources (e.g., In-Office Cost System and Origin-Destination Information System - Revenue, Pieces and Weight (ODIS-RPW) system) are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. With respect to the ODIS-RPW system, calculated sample revenue should approximate a subset of actual Postal Service Trial Balance revenue, but the RPW Reporting system has been designed to accommodate and adjust for any differences.

In preparation for the Fiscal Year 2005 CRA, the Postal Service introduced improvements in the design of the In-Office Cost System data collection instrument. These changes are described in testimony filed before the Postal Rate Commission (PRC) in Docket No. RZ006-1.

Mailgram service was no longer provided after February 28, 2006 and will not be shown as a line item in future CRA reports.

2. Definitions

Volume Variable Cost – The change in unit costs that result from a change in its volume alone, when the volumes of other subclasses or mail categories remain constant. That change in unit costs is multiplied by the total volume of the subclass or mail category to get total volume variable costs.

Product Specific Cost – Product specific costs, not included in volume variable costs, represent a portion of the attributable cost of certain subclasses of mail.

Attributable Cost – The sum of volume variable plus product specific costs are attributable costs.

Contribution – Revenue per piece minus attributable cost per piece.

Cost Coverage – Revenue per piece as a percentage of Attributable Cost per piece. Unit Revenue/Attributable Cost times 100.

Fees – Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

International Mail – International mail includes costs and revenues from both U.S. origin and foreign origin mail and special services. Volume statistics generally do not include foreign origin mail. Accordingly, the per piece figures on the International line, though indicative of changes from previous years, do not signify the true unit revenue, cost and contribution.

Other – Other Special Services is a category that includes several cost items such as identifiable costs for return receipts, delivery confirmation, signature confirmation, merchandise return receipt, business reply, and Forms 3547/3579. The volume and revenues are the same as the RPW Report's Delivery Receipt Services.

Miscellaneous Items – Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of services performed for government agencies and private contractors. They do not include the \$37.2 million in revenue earned from the money order float, which is included in special services and international mail revenue in the CRA.

Combined Mail Categories – The following mail categories include more than one subclass due to the enactment of Public Law 106-384 (October 27, 2000):

“Outside County” contains Nonprofit Periodicals, Classroom Periodicals and Regular Periodicals.
 “Enhanced Carrier Route” (ECR) contains Standard Mail Nonprofit ECR and Standard Mail Regular ECR.
 “Regular” contains Standard Mail Nonprofit and Standard Mail Regular.
 “Media Mail” contains Library Rate and Media Mail (formerly known as Special Standard.)

3. Miscellaneous Adjustments

A) Mortgage income of \$.82 million is included with interest income in the Annual Report and is reported as miscellaneous revenue in the CRA.

Operating Revenue per Annual Report	(in millions)
Interest Income per Annual Report	\$72,650
Annual Report Revenue	<u>167</u>
	<u>\$72,817</u>

CRA Report Revenue	<u>\$72,817</u>
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B) Interest expense on borrowings and deferred retirement liabilities shown separately in the Annual Report are reported as part of the total CRA Report Expenses, as is the escrow funding now required (see note 5 below.)

Operating Expenses per Annual Report	(in millions)
Escrow Expense	\$71,684
Interest expense on deferred retirement liabilities	2,958
Interest expense on borrowings	231
Annual Report Expenses	<u>2</u>
	<u>\$74,875</u>

CRA Report Expenses	<u>\$74,875</u>
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4. Cards

Volume variable costs are for the printing costs related to stamped cards.

5. Public Law 108-18

On April 23, 2003, Public Law 108-18, the "Postal Civil Service Retirement System Funding Reform Act of 2003" was signed into law, which was in effect during Fiscal Year 2006. Under this legislation, the Postal Service reduces the amount paid for certain retirement benefits administered by the Office of Personnel Management (OPM). The legislation expresses that to the extent "savings" resulting from the Act are attributable to fiscal years prior to 2006, they will be used to reduce postal debt and to hold postage rates unchanged. The legislation expresses the sense of Congress that some portion of any anticipated "savings" after fiscal year 2005 be used to address debt repayment, pre-funding of postretirement healthcare benefits for current and former employees, productivity and cost saving capital investments, delaying or moderating increases in postal rates, and any other matter. Included in the legislation was the requirement that the Postal Service bear the CSRS cost associated with the prior military service of Postal Service retirees, a cost previously funded by the U.S. Treasury. The legislation included provisions for the Congress to reconsider whether responsibility for the cost will be borne in the future by the U.S. Treasury or by the Postal Service. Until provided for by law, the corresponding "savings" accruing to any fiscal year after 2005 are to be considered operational expenses of the Postal Service and held in escrow, and may not be obligated or expended. Public Law 108-18 was nullified in Fiscal Year 2007 by the passing of the Postal Accountability and Enhancement Act, Public Law 109-435, specifically in Sections 802 and 804., however its provisions do not affect Fiscal Year 2006.

6. Other

All figures in the CRA are rounded and may not add to totals. Percents are rounded to the nearest decimal.

- Denotes zero values.
- () Denotes negative values.